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Agenda item 7

DRAFT REPORT OF THE COMMISSION ON TRADE IN GOODS AND SERVICES, AND COMMODITIES ON THE FIRST PART OF ITS FIRST SESSION (6-8 November 1996)

Rapporteur: Mr. Sek Wannamethee (Thailand)

INTRODUCTION - AGENDA ITEM 3 (IMPACT OF URUGUAY ROUND) - ORGANIZATIONAL MATTERS

Speakers:

Deputy Secretary-General of UNCTAD
Senior Programme Manager, ITD
Pakistan (for Asian Group and China)
Morocco (for African Group)
Russian Federation
Panama (for Latin American and Caribbean Group)
Cuba
European Commission
FAO

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by **Friday, 28 February 1997, at the latest** to:

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INTRODUCTION

1. In accordance with the decision taken at the thirteenth executive session of the Trade and Development Board on 8 July 1996[1/] and with the UNCTAD calendar of meetings approved by the Board at its forty-third session, the Commission on Trade in Goods and Services, and Commodities held the first part of its first session at the Palais des Nations, Geneva, from 6 to 8 November 1996, to deal specifically with item 3 of its agenda relating to the impact of the Uruguay Round Agreements. Pursuant to the same decision, the Commission held the second part of its first session from 19 to 21 February 1997, to consider agenda item 4 on trade, environment and development.

Opening statement

2. The **Deputy Secretary-General of UNCTAD** recalled that the ultimate objective of UNCTAD's work programme in the field of trade, as adopted at UNCTAD IX, was to maximize the positive impact of globalization and liberalization on sustainable development by helping developing countries and economies in transition become more effectively integrated into the international trading system. The UNCTAD secretariat was fully prepared, in this regard, to play its part on the issues of globalization and interdependence, in particular on the implications of the international trading system both for the development strategies and the long-term developmental prospects of these countries. To that end UNCTAD would cooperate closely with WTO, the linkage with which had already been established, at the intergovernmental machinery level as well as at the secretariat level. In this regard, he called for constant support and guidance from Governments to enable UNCTAD/WTO cooperation to deliver fully on expectations. Clearer priorities and new ideas on how to enhance this relationship would make a positive contribution to the work of this Commission.

3. He said that the main conclusions of the report by the UNCTAD secretariat (TD/B/COM.1/2) were: (a) the effective integration of developing countries into the multilateral system was a prerequisite for their deriving benefits from the system; and (b) these countries required the support of the international community in this endeavour. "Effective integration" referred to improving the domestic supply capabilities of developing countries to respond to new trading opportunities; to their ability to conform to the trade obligations; and to formulating and pursuing development strategies within the framework of a multilateral trading system. The specific areas for further work with a view

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1/ See the report of the Trade and Development Board on its thirteenth executive session (TD/B/EX(13)/2), chap. I, section B.1.

to translating analysis into action were: the identification of all relevant issues, including constraints on the effective integration of countries into the international trading system; the strengthening of institutions and of human and financial resources so as to ensure the effective participation of developing countries in the international trading system, as well as strengthening of the capacities of these countries for designing and implementing economic policies to maximize the benefit from this participation; and the elaboration of practical recommendations on possible actions with a view to exploiting the opportunities arising in the post-Uruguay international trading environment.

4. Any expert meetings which might be convened would function under the precise terms of reference set by the Commission, which could be guided by the Midrand mandate, in particular: (a) enhancing greater understanding of the relationship between globalization and the instruments of the multilateral trading system; (b) maximizing the positive developmental impact of expanding trade; (c) trade in services; and (d) issues relating to commodity diversifications. The discussion on integrating trade, environment and development at the second part of the Commission's first session in February 1997 could also lead to the identification of issues where in-depth expert analysis might be required. Moreover, an executive session of the Trade and Development Board would be held in March 1997, which could suggest, on the basis of decisions taken at the WTO Ministerial Conference in Singapore, which additional issues on the international trade agenda, including new and emerging ones, should be further pursued in UNCTAD from the development perspective.

5. Referring to the longer-term perspective of the work programme, he felt it was appropriate to give some thought from the outset to the results the Commission wished to achieve, how to assess these results, and what policy objectives should be pursued. One set of expected results could be directly extrapolated from the Midrand mandate. These were the accession of more developing countries and economies in transition to WTO; improvements in the human and administrative capacities of developing countries, leading to their greater involvement in initiatives in the WTO and in the regional trading arrangements; and an improved understanding of the developmental dimension of the trade and environment nexus. Another set of results could be evaluated by analysing the economic and trade situations of developing countries, so as to assess the possible linkage between trade liberalization and the growth of their economies and their share in international trade. The overall result of this work should be to provide a deeper understanding of where the various policy options would lead the developing countries, and how they might affect the development process. UNCTAD should also try to foresee the changing policy environment in many countries and to offer more solid analysis and empirical

evidence for ascertaining the developmental impact of further trade liberalization. He hoped that the policy analysis and the consensus-building engaged in by this Commission would serve to provide a clearer idea of opportunities offered by globalization, and would thus lay a firmer basis upon which both national and multilateral trade policies could be built.

Chapter I

ENABLING COUNTRIES TO RESPOND TO THE OPPORTUNITIES ARISING FROM THE URUGUAY ROUND AGREEMENTS SO AS TO DERIVE MAXIMUM AVAILABLE BENEFIT BY: ANALYSING THE IMPACT OF THE URUGUAY ROUND AGREEMENTS ON DEVELOPMENT AND ENHANCING CAPACITIES FOR PARTICIPATION IN THE MULTILATERAL TRADING SYSTEM

(Agenda item 3)

6. For its consideration of agenda item 3, the Commission had before it a report by the UNCTAD secretariat (TD/B/COM.1/2), together with statistical annexes (TD/B/COM.1/2/Add.1).

7. Introducing the report, the **Senior Programme Manager of the Division on International Trade in Goods and Services, and Commodities** said that, as a result of the Uruguay Round Agreements, export opportunities had been enhanced for all countries, including developing countries, through trade liberalization and increased security, transparency and predictability of market access. However, these enhanced opportunities would not occur at once. Trade liberalization in many areas would be implemented in stages. Notwithstanding the efforts made in reducing "tariff escalation" and "tariff peaks", these problems still remained. Moreover, the impact of the Uruguay Round's MFN tariff reduction on preference margins would not be uniform in all preference-receiving countries. An assessment of these impacts would require empirical work at a highly disaggregated level (country specific and product or sector specific). Within the framework of cooperation between WTO and UNCTAD, such empirical work was being initiated jointly. Since supply capacities would play a crucial role in determining the extent to which developing countries (and especially least developed countries) could seize the opportunities arising from the Uruguay Round Agreements, the report identified some of the measures required for improving the domestic supply response. The long-term impact of the Round would depend on the capacity of each country to respond to the new trading opportunities and on complementary policies adopted at both the national and the international levels designed to smooth the process of economic adjustment. The capacity to rationalize resource allocation, to develop supply capabilities and to increase the elasticity of supply in critical areas would thus be crucial for minimizing transitional costs and deriving maximum benefits from the opportunities arising from the Agreements.

8. Referring to chapter II of the report, he said that the main challenges of integration into the international trading system faced by the developing

countries and countries in transition were in the following areas: (a) establishment of, or improvements in, institutional mechanisms for providing information and support to the private sector; (b) the challenges faced by non-WTO members in seeking accession to the WTO; (c) conforming to multilateral trade obligations; and (d) preparing for an effective participation in the future trade negotiations, including regional, subregional and bilateral negotiations. Meeting these challenges would require a substantial strengthening of institutional infrastructure, which implied a need to identify the skills and resources required to make national trade-policy institutions workable and effective. National efforts would play a crucial role in building capacities for enhancing participation in the multilateral trading system, but these efforts would need to be supported by strengthening multilateral technical assistance and by general analysis of issues. Particular attention would have to be paid to the needs of the least developed countries in that context.

9. The spokesman for the **Asian Group and China** (Pakistan) said that his Group expected the Commission to agree on a set of action-oriented conclusions identifying concrete measures that would enable countries to derive maximum benefit from the Uruguay Round Agreements. These conclusions should also serve as signposts for action by the UNCTAD secretariat to help member States participate effectively in the multilateral trading system.

10. Commenting on the secretariat report (TD/B/COM.1/2), he was of the view that it did not analyse sufficiently the existing global economic environment which, in many respects, was inimical to development, given persistent debt burdens, declining ODA, uneven private investment flows, and overly cautious deflationary policies of developed countries. Even the most strenuous efforts to capitalize on opportunities created by the Uruguay Round would founder in the face of structural global economic constraints. The report appeared to gloss over the flaws inherent in the Uruguay Round Agreements, which inevitably had a deleterious effect on development. He cited such examples as:

- Absence of tariff reductions on 22 per cent of dutiable imports which were of particular interest to developing countries;

- A relatively high degree of tariff escalation in most product groups, again particularly those of export interest to developing countries;

- Persistence of peak tariffs on sensitive products such as textiles, leather, footwear, fish and fish products;

- Provisions that led to higher food bills for net food-importing countries during the period of transition;

- More stringent provisions on patent protection which were likely to result in higher prices for pharmaceutical products and for advanced technology.

11. The implementation of the Uruguay Round Agreements was also revealing factors that would have a negative impact on development. These included:

- Continued resistance by developed countries to the dismantling of barriers that protected sectors and industries that were no longer competitive;

- Unsatisfactory progress in the integration of textiles into the multilateral trading system;

- Inadequate assistance to developing countries in coping with the demands generated by the Uruguay Round Agreements. Accession to and implementation of the current Agreements, and negotiations on future ones, were among the areas where assistance was required.

12. An objective assessment of the impact of the Uruguay Round Agreements would enable developing countries to benefit from the opportunities created by the Agreements. Such an assessment would need to include:

- A continuing analysis of global economic factors that restricted the ability of developing countries to enhance their trade, and the identification of actions required to alleviate such factors;

- Strengthening the capacity of UNCTAD to provide an ongoing independent and impartial assessment of the impact of the Uruguay Round Agreements, and to recommend policy options for developing countries. Joint studies with other organizations were useful only if they did not shy away from pursuing awkward lines of inquiry and from uncomfortable truths.

13. He recalled that the developing countries acceding to the Uruguay Round Agreements had indicated their commitment to an open and rule-based trade regime, in the expectation that the regime would be equitable. If the perception gained ground that the principle of equity was being eroded, their commitment to the Agreements would risk coming under pressure. History was replete with examples

of international agreements that had failed because they could not provide all participants with a sense of shared benefits. He cautioned that such unfortunate instances of unsuccessful global regimes should not be repeated by failing to address the shortcomings of the Uruguay Round Agreements.

14. The spokesman for the **African Group** (Morocco) said that the measures proposed in the secretariat report for strengthening the capacity of developing countries to participate in the multilateral trading system were of particular interest to African countries. The African Group, however, would have welcomed more emphasis on the development aspects of the Uruguay Round Agreements. The approach followed in the report, in particular in paragraphs 50 to 55, related more to the commercial dimension of the Agreements than to the development implications. Moreover, the report did not take into account internationally applied development indicators. While the report highlighted internal parameters, it passed over in silence the constraints and measures to be taken at the international level: the international environment, access to world markets, reduction and elimination of protectionist measures including under new forms, also affected the integration of developing countries into the international trading system and their capacity to benefit from trading opportunities. It was necessary to achieve an open, equitable, transparent, non-discriminatory trading system. The report could also have further examined the constraints facing commodity-dependent countries and proposed recommendations to assist these countries in their efforts to exploit the opportunities offered by the Uruguay Round. Paragraph 91 of the Midrand Declaration gave a clear mandate in this respect.

15. In order to integrate developing countries into the world economy, avoid the risk of marginalization of certain of these countries and maximize the benefits of liberalization that might accrue to them, it would be necessary to implement fully the Uruguay Round Agreements, including measures permitting the elimination of the possible harmful effects on least developed and net food-importing countries, in particular as laid down in the Marrakesh Decisions. To strengthen the participation of developing countries in the multilateral trading system, a balance had to be achieved, in present and future negotiations, between rights and obligations in WTO and between the interests of major trading partners and the development needs of developing countries. This equilibrium was of the utmost importance, given that the world economy could not function properly without taking into account the aspirations of the majority of potential actors. Their participation in decision-making, in particular in key multilateral institutions, was also an important element to maximize benefits accruing from international agreements and strengthening integration.

16. Most studies recognized that the long-term benefits that Africa could derive from the Uruguay Round would be outweighed by short-term losses. The African continent would therefore be marginalized if concrete measures were not adopted by the international community. Sixty-five per cent of the active population in Africa was engaged in the production of commodities and therefore horizontal and vertical diversification was a *sine qua non* for the development of this region; this diversification needed to be supported by the development of the other sectors of the economy, by technology, transport and communication, and by strengthening of the private-sector participation. Africa had an urgent need for international support in this endeavour and considered that developed countries should facilitate, *inter alia*, market access for African products, eliminate barriers and restrictive commercial practices, and ameliorate preference schemes.

17. The representative of the **Russian Federation** stated that his Government considered as one of the main priorities in UNCTAD's overall mandate its analytical work and technical cooperation for both facilitating the adaptation of developing countries and economies in transition to the post-Uruguay Round period, and helping to identify and expand new trading opportunities of these countries. In this context, it was especially important for the countries in the process of integration into the world economy, including the Russian Federation, to receive practical technical assistance supporting accession to the WTO through improved understanding of multilateral trade rules and disciplines, as well as negotiating and human resource capacities. Such assistance should also cover the post-accession period of implementing the WTO rights and obligations. By providing technical assistance in this area, UNCTAD would contribute substantively to the formation of a more universal international trading system.

18. He expected that, in the course of the Commission's work, there would be an opportunity to exchange experiences, especially those of long-standing GATT/WTO members, on ways and means to strengthen administrative infrastructures, human resources and trade-policy mechanisms. Regarding other aspects of the Commission's work programme, he mentioned the need to use UNCTAD's analytical potential for evaluating country- and sector-specific real economic effects of the Uruguay Round implementation. Such evaluation could have a practical impact on establishing consensus within the relevant countries, including his own, on matters related to the WTO accession and membership. Other matters of interest to his delegation included: the process of implementation of the WTO Agreements in other countries, including new legislation; and new trading opportunities in goods and services. Furthermore, the Commission should secure its mandate on such important issues as integrating trade, environment and development; trade

in services; improvement of trade preferences; and identification of obstacles and barriers to trade. In this context, he supported the proposal to adapt the Commission's terms of reference in the light of the results of the WTO Singapore Ministerial Conference.

19. The spokesman for the **Latin American and Caribbean Group** (Panama) expressed appreciation for the secretariat report (TD/B/COM.1/2), which was well-balanced and contained practical suggestions on those measures which should be implemented to help developing countries face the new situation. UNCTAD had a clear and important task to carry out: to help strengthen the developing countries' participation in the international trading system as well as in the international negotiations. Agriculture and textiles were two areas of particular interest to developing countries. However, developing countries would be interested in participating in future negotiations only if they could see concrete and positive results coming from them. He hoped to see the WTO Ministerial Meeting contributing to improved market access conditions for developing countries and to avoiding their marginalization.

20. He suggested that the work of the Commission could focus on singling out the new market opportunities which had emerged in different regions and subregions as a result of the Uruguay Round, as well as the new barriers to the expansion and diversification of international trade. He also stressed the need to set up a strong programme of technical cooperation aimed at strengthening institutional capacities in developing countries, and the links between government and private sector.

21. Finally, he suggested that the expert group meetings which would be convened in 1997 could address the following issues: commodities diversification; promotion of trade in services; strengthening of institutional capacity; and trade and environment.

22. The representative of **Cuba** noted that the main results of the Uruguay Round were a more open international trading system and more clear international trade rules. However, developing countries were still unable to benefit fully from these positive results, and some developed countries were setting up new non-tariff measures which were hindering trade and development opportunities for developing countries. Of particular concern were the trade embargo that the United States had maintained against Cuba over the past 35 years and the new Helms-Burton law, which had been rejected by the international community because it violated international trade principles.

23. He suggested that the Commission could focus its future work on the following topics: the need to ensure a clear, stable and predictable economic and financial environment, which would favour foreign direct investment and the growth of international trade; the recognition of the importance of developing-country integration into the global economy, including international trade; the need for all countries to comply with the obligations undertaken in the Uruguay Round; the avoidance of the setting-up of new trade-restrictive measures by developed countries; the importance of reconfirming the need for special and differential treatment for developing countries; improved market access conditions for goods and services of export interest to developing countries; the establishment of measures which would help developing countries to increase their supply capability, their competitiveness, and their access to foreign financing; support to developing countries in the development of appropriate national policies to promote and attract foreign investments and assistance to enable them to better understand and benefit from the results of the Uruguay Round; and finally, increasing technical assistance activities in the area of commodities, including risk management, and contributing to the establishment of a fair international environment for commodities-exporting countries, which would guarantee equitable prices for both producers and consumers, increase productivity and encourage diversification.

24. The representative of the **European Commission** praised the secretariat report for its balanced description of market access possibilities opened up for developing countries by the Uruguay Round. However, the dynamic effects on world trade and, in particular, developing-countries' exports arising from the Uruguay Round could have been brought out more clearly. While he agreed that on paper some of the Uruguay Round's effects would not begin to operate for many years to come, the guarantee of a more secure trading framework in the future could induce higher trade flows at present. In outlining the negative effects of tariff escalation in section I.A of the report, more attention might have been given to the consideration of the links between MFN and preferential regimes, since the existence of preferential margins in relation to tariff levels mitigated the effects of tariff escalation.

25. He called for greater attention to be paid to least developed countries in UNCTAD's future analytical work on market access, since the integration of the LDCs into the global trading system was an essential element of sustainable growth and development. He observed that the EU was providing 60 per cent of the LDCs' preferential export markets.

26. He felt that the separation of "strengthening trade-supporting services" and "trade efficiency measures" in section I.B of the report was in contradiction

with efforts to improve trade-supporting services where integration of trade efficiency and Trade Point efforts was of marked importance.

27. With regard to the preparation of individual country studies, he proposed that the scope of these studies be broadened to include examination of the capacity-building issues as discussed in section II of the report so as to better identify policy approaches as well as technical assistance needs of developing countries. He saw this as an opportunity to examine: links between tariff reductions resulting from WTO agreements and preferences granted through the GSP and other preferential agreements; how reduction in agricultural subsidies by major exporters had resulted in competition for local and regional producers; and effects of the agreements on services, intellectual property rights, sanitary measures and technical barriers to trade.

28. In addressing the issue of technical assistance, he emphasized the need for developing countries themselves to seek to improve legislative frameworks and institutional structures. Technical assistance should play a supporting role in this process, and the quality of such assistance was most important. In providing technical assistance activities, the needs of the LDCs should in the EU's view be addressed as a priority issue. In this context, he pointed to the regional basis of technical assistance activities, with the greater role in capacity building expected from South-South cooperation. For this purpose, interested developing countries could establish regional centres devoted to international trade questions as an effective means to diffuse expertise and knowledge. In view of the limited financial resources available to support these assistance activities, the role of bilateral donors would be critical.

29. The representative of the **Food and Agriculture Organization of the United Nations** (FAO) said that the forthcoming summit in Rome on food security was expected to lead to the adoption of international policies and strategies, as well as action by governments, international institutions and all sectors of the civil society. Food security went beyond the problem of production, since it involved access and distribution, including international trade in food and other commodities. As agricultural commodities continued to play a vital role in the economies of many developing countries, there was a continuing need to increase market transparency, to improve the transmission of price signals, to seek consensus among exporters and importers on policies, to pursue commodity development activities, to address environmental concerns in specific commodities and to seek WTO compatible means to handle commodity price instability. FAO's ten Intergovernmental Groups on Commodities were currently looking into these issues for a wide range of agricultural commodities. Fundamental to the attitude of developing countries to participation in the negotiating process and to their

acceptance of further liberalization in agriculture was their belief that they were getting a fair share of the gains to be derived from the liberalized regime and that they were not exposing their economies to undue risks from openness to the world market. Assessments to date indicated that opportunities for developing countries would increasingly come from exploiting diversification possibilities: geographically, by expansion into faster growing import markets; horizontally by increasing the spread of commodities exported; and vertically, by increasing the value-added for exported products. Ongoing work in FAO indicated that tariff escalation had been reduced as a result of the Uruguay Round, which could offer developing countries new opportunities for diversification. Future work on the Uruguay Round and developing countries would include responding: to assistance requests from individual countries to collaborate in reviewing their present agricultural policies with regard to the Uruguay Round Agreement on Agriculture (AoA); to requests for assessments of the impact of the AoA on specific commodity groups, such as oilseeds or fruits and vegetables; to regional requests for reviews of the AoA impact on food security, on structural adjustment and on the small farmer; and, on a regular basis, to public and private sectors for information or advice. FAO envisaged an increasing demand for advice with regard to the AoA, including for technical cooperation projects, in such specific areas as disease risk analysis in the animal husbandry sector. Thus, much work remained to be done by all organizations in assisting the developing countries in the follow-up to the Uruguay Round, a task in which FAO looked forward to collaborating with UNCTAD.

Action by the Commission

30. At its 2nd plenary meeting, on 8 November 1996, the Commission adopted draft agreed conclusions on agenda item 3.[2/]

31. At the same meeting, the Commission took note of the text of the summary by the Chairman and agreed to annex the summary to the final report on its first session.[3/]

[2/] Subsequently circulated in TD/B/COM.1/4, the agreed conclusions will be annexed to the final report of the Commission on its first session.

[3/] Subsequently circulated in TD/B/COM.1/5, the Chairman's summary will be annexed to the final report of the Commission on its first session.

Chapter II

INTEGRATING TRADE, ENVIRONMENT AND DEVELOPMENT: RECENT PROGRESS AND OUTSTANDING ISSUES

(Agenda item 4)

32. For its consideration of agenda item 4, the Commission had before it a report by the UNCTAD secretariat (TD/B/COM.1/3).[4/]

[To be completed in the light of the deliberations at the second part of the first session]

4/ By decision of the Board at its thirteenth executive session, agenda item 4 and the relevant secretariat report were to be considered at the second part of the first session of the Commission, in February 1997. At the same time, it was agreed that the report would be made available to the Commission at the first part of the session in November 1996 to facilitate national preparations on this item.

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the session

33. On behalf of the Secretary-General of UNCTAD, the first session of the Commission on Trade in Goods and Services, and Commodities was opened on 6 November 1996 by Mr. Carlos Fortin, Deputy Secretary-General of UNCTAD. (For the opening statement by Mr. Fortin, see Introduction).

B. Election of officers

(Agenda item 1)

34. At its first meeting, on 6 November 1996, the Commission elected its Bureau as follows:

Chairman:	Mr. Daniel Bernard	(France)
Vice-Chairmen:	Mr. Eumelio Caballero	(Cuba)
	Mrs. Rafla Mrabet	(Tunisia)
	Mr. Adam Qrzechowsky	(Poland)
	Mr. John Rosenbaum	(United States of America)
	Mr. Agus Tarmidzi	(Indonesia)
Rapporteur:	Mr. Sek Wannamethee	(Thailand)

C. Adoption of the agenda and organization of work

(Agenda item 2)

35. At the same meeting, the Commission adopted the agenda for its first session (TD/B/COM.1/1), having reconfirmed the decision taken at the thirteenth executive session of the Trade and Development Board that item 4 would be considered at the second part of the session in February 1997. Accordingly, the agenda for the first session of the Commission was as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Enabling countries to respond to the opportunities arising from the Uruguay Round Agreements so as to derive maximum available benefit by: analysing the impact of the Uruguay Round Agreements on development and enhancing capacities for participation in the multilateral trading system

4. Integrating trade, environment and development: recent progress and outstanding issues

5. Provisional agenda for the second session of the Commission and any necessary preparation through expert meetings

6. Other business

7. Adoption of the report of the Commission.

D. Provisional agenda for the second session of the Commission and any necessary preparation through expert meetings

(Agenda item 5)

[To be completed as appropriate]

E. Adoption of the report of the Commission

(Agenda item 7)

[To be completed]